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## Portugal

## Wine

## Madeira Wine Update

## 2003

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### Report Highlights:

**Madeira, Portugal's island off the coast of Africa, has long been known for its exports of fortified wine. During the past decade, the island's wine industry has wrestled with the problem maintaining its overseas customers in an increasingly competitive world market. Undergoing a period of renovation, the industry is re-shaping its production and marketing strategies. 1 USD = .93 Euro.**

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Includes PSD changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Madrid [SP1], PO

One of the most emblematic Portuguese products, fortified Madeira wine has been produced for centuries on the Atlantic island. Legend has it that its ageing process - "madeirization" - was accidentally discovered during the 16th century, when some casks of wine were shipped to India and subsequently returned to Madeira by the buyer. The exposure to intense tropical heat for two years and the permanent shaking of the casks caused the natural Madeira wine to be modified by an oxidation process that resulted in a sweeter, lower-acidity wine, much superior to the original product.

In the modern process, the wine is fermented normally, but fermentation is stopped when the must reaches a desired level of sweetness; fermentation is stopped by the addition of alcohol. After the filtration and clarification of the wine, the ageing begins. The first step is "madeirization," or heating of the wine. This process can be done in "estufas," where the wine is heated artificially or in a more natural process where the wine is placed in casks in the attics of warehouses which are warmed by the sun. After the heat process, the wine is then stored in oak casks -- in some cases for decades -- until it is released to the market. The final product must have a minimum of 19 percent alcohol which, along with the product's stage of oxidation, makes Madeira wines rather long-lasting.

Located in the Atlantic some 300 miles off the North African coast, Madeira has rich volcanic soils and a mild Mediterranean climate which support a wide variety of plant life. The island's steep terrain is a challenge to agriculture. Of its total area of 75,000 hectares, only 6,000 are cultivated; much of the cultivated area consists of thousands of small plots on stone-walled terraces built on steep hillsides.

Vineyards occupy about a quarter of the cultivated area, or some 1,500 hectares. Historically, Madeira wine was produced from six locally developed grape varieties. After the phylloxera plague destroyed most of the island's existing vineyards in the 19<sup>th</sup> Century, phylloxera-resistant American varieties were brought in to provide rootstock. Though this stock was meant to be grafted with local varieties, the majority of growers discovered that these new disease-resistant vineyards produced grapes suitable for wine making. Only about a quarter of the grape area was grafted with the traditional varieties. Consequently, production is sharply divided between "illegal" American varieties and "legal" traditional ones.

The six legal varieties are now planted in only 417 hectares. *Tinta negra* (reportedly derived from a hybrid of the French *Pinot noir* and the Portuguese *grenacha*), is by far the most important of these, accounting for some 85 percent of total legal Madeira grapes. The others include *Sercial* (reportedly derived from Rhein valley varieties), *Verdelho* and *Bual* (reportedly derived from ancient mainland Portugal varieties), *Malmsey* (reportedly of Italian or Cretan origin) and *Terrantez*. The remaining grape area, estimated at 1,000 to 1,100 hectares, is still mostly planted in "illegal" American varieties.

One of the Madeira wine industry's highest priorities is regaining the varietal purity of its grape supply. Since Portugal joined the EU in 1986, the industry has tapped consecutive EU-backed programs to fund this goal. According to official sources, some 180 hectares were re-planted under EU pre-Accession and post-Accession structuring programs in the 1980's and 1990's. An

additional 100 hectares are expected to be re-planted through 2006, when the current structuring program is set to expire.

These restructuring programs are among the most generous in the EU. Because of Madeira's location nearly 500 miles from mainland Portugal, the island is considered an "ultra-peripheral" region in the EU. As such, it benefits from co-financing rates are the highest in all of the EU (up to 75 percent of eligible expenses, in addition to a special premium to compensate the producers for temporary income losses associated to the re-structure). Other special dispositions include a derogation to legal status of non-traditional vineyards, so that un-rooting of illegal stock is eligible to EU subsidies. Under the same derogation, sale of wine from illegal varieties, which are banned from human consumption elsewhere in the EU, is allowed outside organized distribution channels until 2006.

Yet despite the generosity of these programs, the vineyard re-structuring effort still faces difficult constraints. Grape production is highly fragmented: there are 2,066 growers on the 417 hectares of "legal" varieties. The island's steep slopes prevent mechanization, so virtually all vineyard work is done by hand. This is becoming an increasingly difficult burden for growers, half of whom are older than 55 years of age. The island's tourist boom has created a severe labor shortage, further driving up growers' production costs.

Given the uncertainties in its grape supplies, Madeira's wine production is expected to remain stable-to-declining over the medium-term future. Production averaged 5.1 million liters a year for the 2000-2002 period, consisting essentially of traditional, fortified Madeira. Normally, only fifteen percent of total wine production is sold on the island, which makes the sector highly dependent upon exports. In terms of export destinations, most are directed to EU countries (87.5 percent of the total in 2001 and 77.6 percent in 2002). Exports outside the EU are led by Japan (6.0 percent in 2001 and 8.8 percent in 2002) and the U.S. (4.2 percent in 2001 and 8.4 percent in 2002).

The major objective of the wine industry's marketing strategy is to gain a greater control over the Madeira "brand." Protecting the brand's reputation for quality is central to this strategy. For this reason, the Government of Madeira accepted the industry's proposal to restrict exports of bulk wine from the island, beginning in January 2002. Prior to that date, about three quarters of the island's exports were shipped in bulk, primarily to the EU, where the wine was bottled or otherwise marketed. This distribution pattern gave the Madeira industry little control over the "brand" or its quality. There was also a strong economic argument for this policy. In 2001, the average price of bottled wine was about 7.50 euros per liter; for bulk wine, the price was about 2.00 euros per liter.

During the first year of this change, the export pattern has had some dramatic changes. In 2001, the last year before bulk shipments were restricted, exports reached a peak of 4.1 million liters, including 3.0 million in bulk. In 2002, however, total exports were more than cut in half, to 1.8 million liters; bulk shipments dropped to 546,000 liters, for processing into certain high-quality products under a strict authority-controlled regime.

Despite these results, Madeira's wine industry has some optimism for the future. Old markets are

also expected to rebound over the next few years, as traditional markets for bulk wine, most notably Germany, France and Belgium which built high stocks ahead of the bulk export restrictions, will return to import bottled Madeira wine as soon as their bulk stocks are depleted. Industry sources report that this is already beginning to happen, and that the trend should become stronger in the future. In addition, the volume of shipments to the U.S. -- considered a key market for future growth -- went up by more than 4 percent during 2002.

A second important issue in protecting the Madeira "brand" is controlling the island's geographic denomination. The island's wine industry strongly supports the EU's efforts to negotiate a Geographic Indicator Treaty, particularly with the United States. Some Madeirans mistakenly believe that there is a "Madeira County" in California which was so named in order to legitimize the production of a "Madeira" wine. (Note: *Medera* County, California was organized in the 1850's, long before wine production became important in the state. The name is of Spanish origin.) The geographic indicator issue may become more important if exports of Madeira wine to the United States continue to grow.

The wine industry is also trying to diversify its production and target new markets. In order to utilize some of its non-traditional grape varieties, some of the island's vintners are experimenting with non-fortified table wines. They recently obtained EU approval for a variety listing for the *Madeirense* VQPRD, a white table wine incorporating non-traditional grape types. About 100,000 liters were produced in 2001, and the industry hopes to increase it to 500,000 liters by 2006. One of the clearer examples of the industry's new diversification strategy, VQPRD wine is targeted at the internal Madeira island market, where high tourist numbers (about 850,000 visitors in 2001) offer an excellent market potential for unique local products.

## Statistical Annex

### Madeira Wine: Production and Areas

Years:	Number of Vineyard Producers	Must Production from <i>vitis vinifera</i> grapes (Liters)	Area (ha)
2000	2,257	5,651,548	414,80
2001	2,182	5,017,681	415,85
2002	2,066	4,564,085	417,22

SOURCE: Madeira Wine Institute (IVM). Un-corrected data.

NOTE: Above refer to legal grapes. There are no official estimates of illegal areas, but some sources estimate them at 1,000 - 1,100 ha.

### Vineyard Structuring Investments in Madeira

	Number of Subsidy Applications	Total Area (ha)	Approved Investment	Approved Subsidy	Supplement Payment
			(1,000 Euros)		
CSF I */	170	53.2	1,299	974	148
CSF II **/	194	45.6	1,731	1,298	130
Total	364	98.8	3,030	2,272	278

SOURCE: IVM. \*/ Community Structural Framework I - In effect after Portugal joined the EC in 1986, in effect through the early-90's. \*\*/ Community Structural Framework II - In effect since early 90's through 1998. CSF III is in effect since 1999 through 2006. NOTE: In addition to above data, 374 vineyards totaling 82.6 hectares were renovated prior to the 1986 EC-Accession under so-called "pre-Accession funds", also EU co-financed.

### Fortified Madeira Wine Use in CYs 2000 and 2001: Total Exports and Domestic Consumption

Units: Liters

	CY-2000			CY-2001		
	Bottled	In-Bulk	Total	Bottled	In-Bulk	Total
<b>E.U.</b>						
Germany	39,811	504,007	543,818	27,648	628,958	656,606
Austria	24,970	1,290	26,260	12,159	1,720	13,879
Belgium-Lux	11,123	308,035	319,158	10,387	279,621	290,008
Denmark	49,744	20,000	69,744	30,642	44,000	74,642
Spain	4,878	0	4,878	3,519	0	3,519
Finland	29,751	0	29,751	24,402	0	24,402
France	56,514	1,394,488	1,451,002	52,480	1,919,345	1,971,825
U.K.	249,624	35,720	285,344	298,049	35,680	333,729
Greece	378	0	378	531	0	531
Netherlands	29,704	42,500	72,204	49,908	48,000	97,908
Ireland	1,476	0	1,476	1,863	0	1,863
Italy	11,772	0	11,772	4,185	0	4,185
Sweden	39,113	123,238	162,351	96,090	49,965	146,055
Total EU	548,858	2,429,278	2,978,136	611,863	3,007,289	3,619,152
<b>EFTA</b>						
Iceland	702	0	702	1,656	0	1,656
Norway	18,090	0	18,090	11,040	0	11,040
Switzerland	437	0	437	1,164	0	1,164
Total EFTA	19,229	0	19,229	13,860	0	13,860

(To be continued)

# Fortified Madeira Wine use in CYs 2000 and 2001 : Exports and Domestic Consumption (Cont'd)

Units: Liters

	CY-2000			CY-2001		
	Bottled	In-Bulk	Total	Bottled	In-Bulk	Total
<b>Others</b>						
Hong-Kong	0	0	0	0	0	0
Japan	208,407	0	208,407	223,595	0	223,595
Malta	0	0	0	738	0	738
Canada	30,302	0	30,302	42,633	0	42,633
USA	132,859	3,250	136,109	146,218	0	146,218
Venezuela	0	0	0	648	0	648
S. Africa	0	0	0	0	0	0
Israel	0	0	0	495	0	495
Czech Republic	1,998	0	1,998	5,976	0	5,976
Cyprus	0	0	0	252	0	252
Singapore	882	0	882	1,800	0	1,800
New Zealand	0	0	0	450	0	450
China	0	0	0	630	0	630
Malasia	0	0	0	0	0	0
Bermudas	135	0	135	0	0	0
South Korea	2,430	0	2,430	450	0	450
Thailand	0	0	0	198	0	198
Others	7,499	0	7,499	14,139	0	14,139
Total Others	384,512	3,250	387,762	438,222	0	438,222
Total Exports	952,599	2,432,528	3,385,127	1,063,945	3,007,289	4,071,234
<b>National Market</b>						
Madeira	612,395	0	612,395	576,375	0	576,375
Mainland Port.	20,124	0	20,124	59,816	0	59,816
Total National	632,519	0	632,519	636,191	0	636,191
<b>Grand Total</b>	<b>1,585,118</b>	<b>2,432,528</b>	<b>4,017,646</b>	<b>1,700,136</b>	<b>3,007,289</b>	<b>4,707,425</b>

Source: Madeira Wine Institute (IVM)

**Fortified Madeira Wine Use in January-to-November 2001 and 2002**

Units: Liters

	January-to-November 2001			January-to-November 2002		
	Bottled	In-Bulk	Total	Bottled	In-Bulk	Total
<b>E.U.</b>						
Germany	27,648	436,958	464,606	35,136	48,000	83,136
Austria	12,159	1,720	13,879	21,343	0	21,343
Belgium-Lux	10,387	204,621	215,008	10,823	0	10,823
Denmark	30,642	44,000	74,642	38,883	0	38,883
Spain	3,294	0	3,294	9,500	0	9,500
Finland	24,402	0	24,402	32,621	0	32,621
France	52,480	1,628,298	1,680,778	266,027	449,686	715,713
U.K.	289,129	44,600	333,729	253,250	48,065	301,315
Greece	531	0	531	0	0	0
Netherlands	49,008	24,000	73,008	45,270	0	45,270
Ireland	2,763	0	2,763	0	0	0
Italy	4,185	0	4,185	12,874	0	12,874
Sweden	78,783	49,965	128,748	134,203	0	134,203
<b>Total EU</b>	<b>585,411</b>	<b>2,434,162</b>	<b>3,019,573</b>	<b>859,929</b>	<b>545,751</b>	<b>1,405,680</b>
<b>EFTA</b>						
Iceland	1,656	0	1,656	0	0	0
Norway	11,040	0	11,040	11,460	0	11,460
Switzerland	1,164	0	1,164	0	0	0
<b>Total EFTA</b>	<b>13,860</b>	<b>0</b>	<b>13,860</b>	<b>11,460</b>	<b>0</b>	<b>11,460</b>

(To be continued)



### Fortified Madeira Wine Use in January-to-November 2001 and 2002 (Cont'd)

Units: Liters

	January-to-November 2001			January-to-November 2002		
	Bottled	In-Bulk	Total	Bottled	In-Bulk	Total
<b>Others</b>						
Hong-Kong	0	0	0	0	0	0
Japan	206,837	0	206,837	158,918	0	158,918
Malta	738	0	738	0	0	0
Canada	38,403	0	38,403	43,098	0	43,098
USA	146,038	0	146,038	152,332	0	152,332
Venezuela	648	0	648	0	0	0
S. Africa	0	0	0	0	0	0
Israel	495	0	495	0	0	0
Czech Republic	5,976	0	5,976	0	0	0
Cyprus	252	0	252	0	0	0
Singapore	1,800	0	1,800	0	0	0
New Zealand	450	0	450	0	0	0
China	630	0	630	0	0	0
Malasia	0	0	0	0	0	0
Bermudas	0	0	0	0	0	0
South Korea	450	0	450	0	0	0
Thailand	198	0	198	0	0	0
Others	13,689	0	13,689	39,296	0	39,296
Total Others	416,604	0	416,604	393,643	0	393,643
Total Exports	1,015,875	2,434,162	3,450,037	1,265,031	545,751	1,810,782
<b>National Market</b>	575,135	0	575,135	531,069	0	531,069
<b>Grand Total</b>	<b>1,591,010</b>	<b>2,434,162</b>	<b>4,025,172</b>	<b>1,796,100</b>	<b>545,751</b>	<b>2,341,851</b>

Source: Madeira Wine Institute (IVM)